

COST and MANAGEMENT

VOL. XXV

APRIL

No. 4

PLANNING, PROFITS AND PEOPLE

By H. S. Ireland

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Harold S. Ireland began his business career at the early age of 17 when he joined the firm of Canadian General Rubber Co., in Galt, as payroll clerk. He worked upward through the accounting department to become Secretary-Treasurer. To round out his business experience he transferred to sales and eventually became Sales Manager. In subsequent promotions, he was appointed Vice-President and General Manager. In 1948, Mr. Ireland transferred his firm connections to the Dominion Rubber Company, as Factory Manager, Mechanical Rubber Goods Division, Montreal.

COST OF MANAGEMENT

By John C. Lapp

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Before assuming his present position as Office Methods Analyst, with the National Gypsum Co., Buffalo, N.Y., Mr. Lapp was Office Manager of Houdaille-Hershey Corp. He received his higher education at the University of Buffalo, and has taken a prominent part in many civic activities. He is presently a director of the Buffalo Chapter of N.O.M.A.

COST CONTROL

By Alan Herrgen

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Mr. Herrgen was employed by the R.C.A. Victor for the period 1942 - 1946 and worked in the Industrial Engineering and Personnel Departments, and ended his career there as Manager of Manufacturing Methods Division. He organized extension courses at McGill University, on Time and Motion Study and Works Simplification. In 1946 he organized his own business as Business Consultant, specializing in Time and Motion Study. In January, 1951, he was appointed Director of Training for Leetham Simpson Limited.

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Published Monthly by the
SOCIETY OF INDUSTRIAL AND COST ACCOUNTANTS OF CANADA
Incorporated 1920

Editorial and Business Offices: 66 King St. E., Hamilton, Ontario.
J. N. Allan, R.I.A., Secretary-Manager and Editor.

Subscription price to non-members, \$5.00 per year. Single copies, 50 cents. Members desiring five copies or more of a single issue, may obtain them at 25 cents. Opinions expressed by articles and comment are not necessarily endorsed by the Society of Industrial and Cost Accountants.

Authorized as second class mail, Post Office Department, Ottawa.

SOCIETY NOTES

THE SOCIETY OF INDUSTRIAL & COST ACCOUNTANTS OF PRINCE EDWARD ISLAND

It is with a great deal of pleasure and much pride that we are able to announce the enactment of a Private Bill to incorporate the Society of Industrial and Cost Accountants in Prince Edward Island, the ninth to be organized under the aegis of the Society of Industrial and Cost Accountants of Canada.

The legislation incorporating the Society in Prince Edward Island follows the same pattern as that in the other Provinces except that it does not provide for general members. Because of the particular circumstances in the province, the Executive, on the recommendation of the Legislation Committee agreed to this exception.

In any province, organizing a Society such as ours, and securing the necessary legislative authority to carry out its educational program is a sizable undertaking. In Prince Edward Island, where the membership must, of necessity, be comparatively small, the task is magnified in terms of the number of individuals supporting the organization. Sincere congratulations are extended to Richard T. Henthorn and Reuben G. Gentleman, Provisional President and Secretary respectively, and to those who sponsored the bill. The officers and directors are indeed pleased to welcome into the Canadian Society the membership of the Society of Industrial and Cost Accountants of Prince Edward Island, and hope that they will assume a very prominent place in our national organization.

Those who sponsored the bill and became the Charter Members are as follows:

H. R. Carruthers, Provincial Auditor, Charlottetown

J. W. Dixon, C.A., Inspector of Income Tax, Charlottetown

R. G. Gentleman, Secretary-Treasurer, M. F. Schurman Co. Ltd., Summerside

R. T. Henthorn, Controller, R. T. Holman Ltd., Summerside

T. Earle Hickey, Chartered Accountant, Summerside

P. A. Lawrence, C.A., McDonald, Currie & Co., Charlottetown

J. R. Leard, C.A., Income Tax Division, Dept. of National Revenue, Charlottetown

R. W. Manning, C.A., H. R. Doane & Co., Charlottetown

W. E. Massey, F.C.A., Deputy Provincial Treasurer, Charlottetown

W. Grant Thompson, C.A., H. R. Doane & Co., Charlottetown

SOCIETY NOTES

30th ANNUAL COST AND MANAGEMENT CONFERENCE

JUNE 14th - 15th - 16th

THE CHANTECLER and STE. ADELE LODGE

STE. ADELE, QUEBEC

The plans for the 30th Annual Cost and Management Conference are now complete according to an announcement made by the Conference Committee.

An outstanding group of authorities have been assembled to speak on highly provocative and timely subjects which are of concern to even financial executives. The Conference speakers will deal with problems of Financial Management as they relate to Plant Management, Industrial Relations and Sales Management — problems which are at the heart and core of every business concern. The cost of attending the Conference will not be an expense — it will be an investment in increased knowledge.

The conclave will open Thursday morning, June 14th, with business sessions, and the Conference will get under way Thursday afternoon. Technical Sessions will be held Friday morning and afternoon, while Saturday will be kept clear for entertainment and relaxation.

The Annual Dinner, which is always an outstanding event, will this year be addressed by Mr. Dominique Bertrand, R.I.A., General Manager, Albert Laliberte Limited, of Quebec City. Mr. Bertrand is well known as an outstanding after-dinner speaker with a wealth of humour and inspiration in the French Canadian spirit.

Members are advised to make their plans now and be ready to complete the registration forms which will be mailed shortly, along with the complete program and detailed information.

ONTARIO SOCIETY SPONSORS CHAPTER OFFICERS' CONFERENCE

In conjunction with its forthcoming Annual Meeting and Cost Conference, to be held in Peterborough, on May 25th and 26th, the Ontario Society will conduct a Chapter Officers' Conference which will be held the evening of May 24th.

It is expected that all of the 11 Chapters in Ontario will be represented, to exchange views in respect to various types of programmes and to discuss Chapter activities in general.

A Conference of this kind is a new venture in our Society, and it is anticipated that all Chapters will benefit materially from the discussions.

COST AND MANAGEMENT

New Members

CALGARY CHAPTER

A. H. Baker, c/o J. H. Miller, R.I.A., The Canadian Natural Light, Heat & Power Co.
M. C. Locking, 213 - 12th Ave. E., Calgary
A. J. McKee, 616 - 19th Ave. E., Calgary
J. D. Shaver, 633 - 15th Ave. W., Calgary
S. W. Gilfoyle, 1633 - 13th Ave. W., Calgary

EDMONTON CHAPTER

A. McDonald, Edmonton Journal, Edmonton
L. Sorenson, 11306 - 79th St., Edmonton

HAMILTON CHAPTER

Walter F. Kilby, Wales-Strippit of Canada Ltd.

LETHBRIDGE CHAPTER

Geo. L. Coward, 315 - 6th St., Lethbridge

LONDON CHAPTER

W. H. Brett, Somerville Limited, Crumlin
R. A. Hubbell, Somerville Limited, Crumlin
L. H. Hartwick, Somerville Limited, Crumlin
O. T. Neuenfeldt, Allis-Chalmers, Rumely, Ltd., St. Thomas

TORONTO CHAPTER

D. L. Wright, Gutta Percha & Rubber Co. Ltd.
E. C. Wells, Square D Company of Canada Ltd., Mount Dennis
S. G. Caroline, C. A. Dunham Co. Ltd.
W. E. Williams, Coleman Lamp & Stove Co. Ltd.
H. W. Hall, Coleman Lamp & Stove Co. Ltd.
D. E. Russell, Canada Glazed Papers Ltd.
J. P. Hipkiss, Metals & Alloys Ltd.

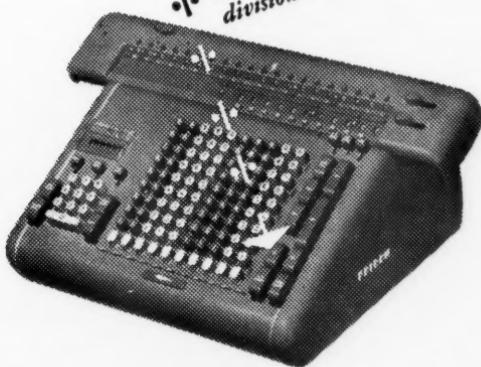
Personals

Elgon K. Faulds, R.I.A., has been promoted to the position of Comptroller, with H. C. Smith Oil Tool Co., Compton, California. Mr. Faulds was born in New Brunswick, Canada, and is a member of the Montreal Chapter. H. C. Smith oil well rock bits have been widely used in development of the Alberta oil fields in Canada.

Mr. E. R. Williams, Works Manager, Shawinigan Chemicals Limited at Shawinigan Falls, has been elected a Director of that Company with the position of Vice-President in charge of Manufacturing.

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COST AND MANAGEMENT

Chapter Notes

CALGARY CHAPTER

K. J. Morrison, O.B.E., F.C.A., the Dominion President of the Dominion Association of Chartered Accountants, was the guest speaker at the last meeting of this Chapter. His subject was "Distribution of Surpluses" and in particular the regulations of the Income Tax Act were explained.

The Chapter is appreciative of the value of this highly-informative address. It is an example of the excellent standard of talks arranged by the chairman of the Program Committee for the current season.

At this meeting, Mr. Morrison spoke with authority and sincerity on the cordial relations existing between the Association of Chartered Accountants and our Society.

EASTERN TOWNSHIPS

The regular monthly meeting of the Chapter was held Friday, March 9th, at 6.15, in the Elmwood Inn, Lennoxville.

There were two guest speakers for the evening. The first was Mr. H. W. S. Downs, Jr., of the Union Screen Plate Co. of Canada, who gave a very interesting talk on his trip last year to Europe. During the course of his talk, some snapshots were passed around, while he explained all kinds of conditions existing in the Baltic States.

The second speaker for the evening was Mr. N. Terry, R.I.A., our National President, his topic being "Efficient Cost Control". Mr. Terry's talk, on this subject has been judged as being one of the best we have heard for quite some time.

Mr. B. Pow then gave a report on the next monthly meeting which will be a visit through the plant of the Brompton Pulp and Paper Co., at East Angus, Quebec.

HAMILTON CHAPTER

The regular meeting of the Hamilton Chapter of the Society of Industrial & Cost Accountants was held in the Ten O'Clock Club, on March 15th. After the chairman, J. Bracewell, welcomed the local and out-of-town guests, he introduced M. S. Sutherland, who gave a short talk on the necessity of a stimulus for Management, as well as all employees. This could be done by proper reports being given promptly so that action can be taken immediately if need be.

L. Simenton introduced the guest speaker, Mr. Willis T. Windle, of the Carborundum Co., Niagara Falls, N.Y., whose subject was "Statements for and Reports to Management". So that the members could follow him, each person was given a group of the principal forms his company used for supplying management with information necessary for keeping control of money, expenses, production, sales, inventories, etc. His talk was well received and many good ideas were given. J. Sutherland thanked Mr. Windle.

CHAPTER NOTES

MONCTON CHAPTER

The Moncton Chapter had its monthly meeting on February 27th, at the Moncton Curlers Association.

Attendance was somewhat smaller than usual, due to stormy weather and also to influenza.

The guest speaker was our National President, Mr. Norman Terry, from Vancouver. Mr. Terry gave some interesting facts on the origin and growth of our Society, which started with a few members about 30 years ago, and now counts over 3000 members.

His talk was on "Efficient Cost Control — The Goal of Good Management". There is now a shortage of executive ability, and the application of sound principles of cost control is more indispensable than ever. He applied this principle to every phase of a typical Canadian industry: Purchasing, Stores, Manufacturing, Sales, Distribution and Administration.

The speaker was introduced by Mr. H. Buchanan, and thanked by the Chairman, Mr. MacCafferty.

A general discussion followed and various questions were put up to Mr. Terry on the students course of study, and on the functioning of Chapters.

REGINA - MOOSE JAW CHAPTER

The Moose Jay members of the Chapter held meetings in Grant Hall Hotel, on January 25th and February 15th.

Both meetings were addressed by bankers, each presenting subjects of vital interest to industrial accountants. Mr. J. Clark, of the Canadian Bank of Commerce, discussed the subject of Foreign Exchange Control in Canada.

At the second meeting, the members were fortunate in hearing Mr. H. Bower, of the Royal Bank of Canada, speak on The Canadian Banking System.

ST. MAURICE VALLEY CHAPTER

Mr. Norman Terry, our President, visited our Chapter on March 5th. We appreciated his visit very much, particularly since he had to come so far away to make it.

We had a dinner attended by the Directors of the Chapter and this was followed by a curling match and a social evening. Mr. Terry distinguished himself as a Skip of no mean ability and through his curling skill won a beautiful prize for Mrs. Terry.

TORONTO CHAPTER

On March 8th, members of the Chapter were privileged to hear Mr. H. E. Crate, F.C.A., the President of the Institute of Chartered Accountants of Ontario, describe fully, "The Application and Advantages of Using Section 95A, Income Tax Act, 1949."

A large number of very interesting questions on "Distribution of Earned Surplus" were submitted by those in attendance. These were answered in a very clear and concise manner.

The Officers and Directors for the coming year were elected at the meeting which followed Mr. Crate's address.

◆ C & M ROUND-UP ◆

By N. R. BARFOOT, R.I.A.

ESSENTIAL MATERIALS (DEFENCE ACT)

Effective March 1st, the Department of Trade and Commerce has issued a restrictive order on the use of steel.

Permits are required from the Steel Division of the Trade and Commerce Department for construction of buildings for entertainment of any sort, for the processing of beverages of any sort, for office work, hotels, motor courts, banks, garages, service stations, laundries and buildings for warehousing.

No steel supplier shall sell, supply or deliver any steel materials except under a purchase order bearing a certification indicating the end use.

If the end use indicated is for any of the construction uses referred to above, the buyers purchase order must be accompanied by a permit from the Steel Division.

Wholesale or retail distributors of hardware and builders supplies may be supplied with the steel materials which he customarily sells providing he deposits with the steel supplier a certificate that none of the materials being bought are to be used in the construction outlined above.

This act is the beginning of steel controls. How much of a cutback will be necessary for autos and other consumer goods is unknown.

Immediate shortages of steel are still very spotty and mainly confined to heavy items for construction. For the present, the heavy demand is for projects of civil needs rather than defence.

BUSINESS FAILURES

Dun & Bradstreet reports show that the rising trend of business failures in Canada — evident since 1945 — continued in 1950, but the total dollar amount involved was less than in 1949.

During 1950, failures amounted to 717 — 20.3% more than in 1949. Total liabilities — 15.4 million dollars.

There was a 10% drop in the number of manufacturing failures and a 22.9% drop in liabilities of that group.

Changes in the Wholesale trade group show one more failure than 1949, but liabilities 50% less.

The other three classes of companies — retail trade, construction and commercial services all show a substantial increase in the number of failures and in liabilities involved.

It is interesting to note that in 1939 there were 1299 business failures in Canada, which dropped gradually to 95 in 1945, and has jumped back to the present figure of 717 in 1950.

C. & M. ROUND-UP

DEPARTMENT OF DEFENCE PRODUCTION

Everyone will remember the famous department of Munitions & Supply of World War II fame.

It has blossomed forth under Trade Minister Howe with a new name — The Department of Defence Production.

The major branches are:—

1. *Materials* — including sub-division for each of the important ferrous, non-ferrous, chemical and other raw materials.
2. *Production*:
To embrace aircraft, defence construction and other production crown companies.
3. *General Procurements*:
To be headed by the official buying agency of the government; Canadian Commercial Corporation.
4. *Finance*:
To be under the direction of H. G. Hesler of the Royal Bank, who will advise on all matters such as accelerated depreciation, capital assistance, credit buying.
5. *Service and Administration*:
6. *Economics and Statistics*:
A division of the present Bureau of Statistics in the Department of Trade and Commerce.
7. *Liaison Division*:
To handle all matters affecting foreign relations, international raw materials, allocation, etc.

G. N. P.

Gross national production for 1950 reached a record total of \$17.7 billion, 8% over the previous peak of \$16.4 billion in 1949. One-half due to price increases and one-half to increase in volume of goods and services produced.

ELECTRIC ENERGY

Output of electric energy in Canada reached a new high of 50,795 million k.w.h. in 1950.

In 1939 the output amounted to 26,400,000 k.w.h., indicating a doubling of our power consumption in a little over ten years.

New horsepower added in 1950 amounted to 1,037,275, bringing total available to 12,645,853.

U.S. DEFENCE PRODUCTION ACT

Following the passage of this Act in Washington, in September last year, selective controls have been imposed on the use of essential materials and consumer credits. Further regulation of the American economy by way of price and wage controls is being worked out.

A budget of \$72 billion is now before Congress, of which \$50 billion is for defence.

Any development in the U.S. on this scale is of importance to Canada in view of the growing inter-dependence of the two economies.

COST AND MANAGEMENT

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Current Literature Digest

By W. W. HENDERSON, R.I.A.

METHODS AND COSTS OF DISTRIBUTION, by Professor G. L. Wood — *The Australian Accountant*, January 1951.

The author, speaking as an economist, pleads for the ascertainment of distribution costs on a national level. The real efficiency of business cannot be determined until distribution costs are segregated from total costs. Distribution charges receive much of the blame for existing high prices. The author says there are few factual statistics which serve to either refute or confirm such allegations. In Australia transport costs in themselves are extremely high. However, Professor Wood makes the suggestion that uniformity of railway gauges in itself would in the long run reduce such costs.

The cost accountant, it is suggested, is the logical person, who, working in conjunction with a national census of distribution costs sponsored by the Commonwealth government, could provide many of the answers. However, identification of distribution expense with individual products is implied as necessary. The distribution part of raw material costs would require separation from their composite total, in order that an unbroken chain of distribution costs per article could be forged, and passed on, presumably either to the next buyer, or more likely to a central statistician who would, out of the pool of information nationally gathered, isolate individual product distribution costs. Not only would such costs be available in total, but the component parts of them, such as direct selling costs, advertising and sales promotion, physical distribution, and sundry expenses, also would be provided. The value of such a break-down is almost non-assessable. Certainly the existence of such information would do much to bring about improvements in the over-all efficiency of distribution. Price reductions could be well hoped for.

Professor Wood's article is thought-provoking, and will well repay the time expended in its reading.

HOURS OF WORK VS. OUTPUT, by Max D. Kossoris — *Factory Management and Maintenance*, February 1951.

Mr. Kossoris is Regional Director of the San Francisco office of the U.S. Department of Labor's Bureau of Labor Statistics. He obviously speaks with the authority of long experience, training and a successful career.

His subject is of particular interest now when greater productivity is necessary in order to produce both defence and civilian goods at the same time and in reasonable ratio to demand.

Mr. Kossoris discusses what effect longer hours of work would have on production efficiency.

COST AND MANAGEMENT

Some of his conclusions are:—

- (1) There is no "ideal" or "optimum" work week for all plants. Each plant requires separate consideration, depending upon degrees of operator attention and effort required, physical demands of jobs, whether the job is repetitive or not, whether there is an incentive system in operation or not.
- (2) There is little change in efficiency when the work week is increased from 40 hours to 48.
- (3) After 48 hours, output per man-hour reduces. Absenteeism, especially among women, is higher. So is the injury rate.
- (4) Beyond 58 hours, efficiency doesn't decline, it goes into a "nosedive".
- (5) If you extend your work-week greatly, do it gradually.

These are only high-lights of a very interesting and instructive article.

COST TREATMENT OF SCRAP, WASTE, BY-PRODUCTS AND JOINT PRODUCTS, by W. L. Withers, A.C.W.A., A.C.I.S. — The Cost Accountant (England), February 1951.

The author defines scrap, waste, by-products and joint products. Sources of definitions are: (a) the Institute of Cost and Works Accountants, and (b) Cost Accountants' Handbook.

Waste, it is suggested, if the quantity of raw material lost is small, needs no special treatment, nor isolation from the original work-in-process accounts. Such waste merely adds cost to finished units. If waste is great, then some effort towards relieving work-in-process of such cost is recommended. Further, segregation of such information helps in the matter of waste control. The use of a waste component in a standard cost, separately identifiable, is also suggested as an aid in control. But both actual waste and standard for waste are components of actual and standard costs respectively.

Scrap and by-products are shown to be very similar in character and amenable to similar accounting treatments.

Joint products are attended by many problems and bases of cost apportionment. The author suggests that direct allocation of costs be made to each and all resulting main products as far as may be possible. He advocates the use of a separate work-in-process account for each principal product in which should be housed all direct charges. To an additional work-in-process account, he suggests the charging of items of cost which cannot be specifically allocated.

Possible bases of joint product indirect cost apportionment are:—

- (1) Average unit cost.
- (2) Comparative sales value of resulting main products.
- (3) Physical characteristics, such as equivalent weight in terms of the original material.

Mr. Withers concludes his article with a problem case involving joint and by-products. His suggested solution appears in chart form, which he explains in all necessary detail.

The different methods of treatment mentioned in this article are very clearly set forth, and in each case the author weighs the merits and demerits involved with impersonality and objectivity.

CURRENT LITERATURE DIGEST

DEVELOPMENT IN OFFICE PERSONNEL ADMINISTRATION, Office Management Series, No. 127 — An American Management Association publication.

(1) **A SUPERVISORY TRAINING PROGRAM THAT WORKS**, by Charles M. Skade.

An article dealing with the conference method of training supervisors.

The author advocates the conference method, and claims very beneficial results stemmed from it in his company.

Some of the topics discussed in conferences of supervisors in Mr. Skade's company have been:—

- Selection of employees
- Teaching records
- Job instructions
- Working with employees
- Organization of work
- Control of work
- Quality of work
- Planning and scheduling
- Personnel training
- Handling of grievances
- Work simplification

(2) **EMPLOYEE COMMUNICATIONS — A NUMBER ONE JOB: THE GENERAL MOTORS STORY**, by Milton E. Mumblow.

Mr. Mumblow is a newspaper man by profession, and his present position is that of Director, Employee Relations Staff, General Motors Corporation.

Mr. Mumblow describes the various publications and printed material directed or made available to G.M. employees. Information racks, in which booklets treating many subjects of employee interest are placed for self-selection, are presently being tried. One of G.M.'s most successful projects in employee communications has been a four movie film series dealing with economics.

"My Job Contest", which was discussed in last month's Current Literature Digest, is reviewed by Mr. Mumblow in his article.

(3) **THE WHITE COLLAR WORKER IN THE AMERICAN ECONOMY**, by Robert K. Burns.

This article gives many of the labor ingredients of the U.S.A. economy pie. It is an article of a statistical nature, explaining the growth, composition and relative earnings of the white collar work force.

The growth of the white collar force in recent years has been almost phenomenal — especially the clerical part thereof.

Mr. Burn's article contributes a great deal of information, which the average industrial accountant will find valuable.

However, the article is predicated to such an extent upon percentages and figures generally that it does not lend itself too readily to condensation. It needs to be read in its entirety to gain material benefit. But there is ample reward for the reader giving it his time.

COST AND MANAGEMENT OTHER ARTICLES OF INTEREST

PLANNING COMPLIANCE WITH PAY ROLL CONTROLS — by Austin M. Fisher — The Controller, February 1951.

MERCHANDISED ACCOUNTING IN THE RETAIL MOTOR TRADE — by E. T. Wright — Irish Accountant and Secretary, February 1951.

PROCEDURES FOR PROMPT FINANCIAL STATEMENTS — by John F. Gaither — N.A.C.A. Bulletin, February 1951, sec. 1.

STANDARDS TO MEET PRODUCT CHANGES — by A. L. Hunt and H. J. Walker — N.A.C.A. Bulletin, February 1951, Sec. 1.

HOW WESTINGHOUSE ORGANIZES ACCOUNTING FUNCTIONS — by William V. Deane — The Journal of Accountancy, March 1951.

HOW TO MANAGE THE ACCOUNTING ENGAGEMENT — by Louis H. Pilie, C.P.A. — The Journal of Accountancy — March 1951.

HOW MOTOR CARRIERS USE PUNCH CARD EQUIPMENT — by Ellis W. Goode, C.P.A. — The Journal of Accountancy, March 1951.

PER DIEM COSTING IN HOSPITALS — by Julian Weiner, C.P.A. — The Journal of Accountancy, March 1951.

THE APPLICATION OF ECONOMICS TO BUSINESS — by J. A. Reece — The Cost Accountant, February 1951.

METHODS AND COSTS OF DISTRIBUTION — by Professor G. L. Wood — The Australian Accountant, January 1951.

DEVELOPMENTS IN OFFICE PERSONNEL ADMINISTRATION — American Management Association, No. 127.

"A Supervisory Training Program That Works" — by Charles M. Skade. "Employee Communications, A Number One Job — The General Motors Story" — by Milton E. Mumblow.

"The White Collar Worker in the American Economy" — by Robert K. Burns.

"Defence Production and the National Economy" — by Sumner H. Slichter.

"Economic Mobilization Challenges Office Management" — by Eldridge Haynes.

ADDRESSES OF PUBLICATIONS

The American Management Association, 330 West 42nd Street, New York 18, N.Y.

The Australian Accountant, 430 Bourke Street, Melbourne, Australia.

The Controller, 1 East 42nd St., New York 17, N.Y.

The Cost Accountant, 63 Portland Place, London W. 1, England.

The Irish Accountant and Secretary — Rutland Place, Cavendish Row, Dublin.

The Journal of Accountancy, 270 Madison Ave., New York 16, N.Y.

N.A.C.A. Bulletin, 505 Park Ave. (Fourth Floor), New York 22, N.Y.

C.I.O.S. INTERNATIONAL EXCHANGE LETTERS

EDITOR'S NOTE:—This is another in a series of International Exchange letters on current management problems selected from a group compiled and edited by the National Management Council of the U.S.

GREAT BRITAIN: LETTER NO. 1

Subject: Human Relations

No. Employed: 700-800

Industry: Paint and Varnish

The purpose of this letter is to describe the principles on which this particular company has conducted its human relationships over a considerable period.

The business is an old established Varnish and Paint manufacturing firm employing between 700 and 800 people. Good will and quality are of the utmost importance and every effort is made to maintain them through constant research on scientific lines. The position at the moment is that raw materials are in good supply, though they tend to rise in price, and there is a strong and undiminished demand for the products of the factory. There appears to be no reason why this condition should not continue for many years to come.

The firm believes that the development of close co-operation on the personal side with all ranks of employees is an essential and highly important duty of good management. A 40-hour week is worked; there is a Joint Works Council based on trade union membership. This is almost complete, though not compulsory. In the Council all sections are represented: Directors, Managers, Office Staff, Foreman and 12 workmen elected from the various departments who, when chosen, become shop stewards. Regular bi-monthly meetings are held and the proceedings are published in the form of Minutes in the works magazine.

Wages are fixed by negotiation for the whole industry through the National Joint Industrial Council, but apart from this topic, any subject relevant to the conduct of the business may be brought forward. The Chairman of the Company acts as Chairman of the Joint Works Council and a workman is vice-chairman. Confidential information is supplied as to the state of trade and policy of the Board. Any proposed alterations or schemes affecting the employees are submitted to them for

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discussion, in order that their suggestions may be incorporated in the proposed plan. The object of this policy is government by consent; business management is far easier and far more satisfactory where there is good will and understanding between the Board and its employees.

For a number of years a system of time and motion study has been in operation, and although at the beginning this was not regarded favorably by the employees, it has now become firmly established and there is no desire to go back to the old system based on time rates, with the lower remuneration involved.

In order to make employees feel that any particular set-up is fair, a workman in a particular department has recently been trained in the scientific principles of the system. In the ordinary course he carries on his duties as a grinder, but if a particular set-up is challenged he at once investigates the situation in order to satisfy himself that what is proposed is reasonable. His decision is accepted without question; thus the idea that an employee is at the mercy of his employers, who may take unreasonable advantage of the relationship, is destroyed.

We have, also, a pension scheme, Employees 7% Cumulative Participating Preference shares purchasable by the work-people, at present paying 13%, and a Suggestion scheme. All these and other activities, such as welfare and recreation, tend to make the whole concern a contented co-operative group.

We have recently put into operation a system by which half a dozen or more young men at a time are taken in as trainees. No promise of engagement is given to them but we are able to watch carefully their showing during the months of training and this has enabled us to pick out certain individuals for permanent appointments.

Planning, Profits, and People

By H. S. IRELAND

Plant Manager, Chemical Division, Dominion Rubber Co. Ltd.

In every business enterprise, management must satisfy three major interest groups — Customers, Employees, and the Investors. Each group exercises an impelling force in the operations of every business which is right and proper, providing that uninformed struggle is changed into intelligent co-operation.

There never has been a time before in the history of business, when the accountant could contribute as much to industrial progress as he can to-day. This broadened opportunity creates a heavier responsibility, and the first step in accepting that responsibility is to see clearly just what the accountant can and should do in the broad objective of furthering industrial progress.

Whenever I have the opportunity of talking with a group of accountants, I cannot help remembering the status of the accountant in industry when I first started to work. That was a good many years ago, and fortunately for me that start was in the Accounting Department of a manufacturing concern. As far as I could grasp the situation, there appeared to be two classes of people employed by my Company. The one class was known as "Management", and included the President, Vice-President, and two or three other top executives. The other class was "Productive Workers".

Now that leaves quite a few people in betwixt and between. These people could not call themselves productive workers, and certainly no one ever thought of including them in the Management category. Among this group of orphans was the accountant: along with the rest of the orphans, seemingly being a necessary evil.

But now all this is changed. The accountant is definitely established as a member of the Management team. The fact that he is so established is, in my opinion, the result of him taking unto himself the function of *cost control* in addition to his traditional duties of *financial reporting*.

A Paper presented before Kingston Chapter.

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Regardless of the reason for this change, since it has taken place it is essential for the accountant to thoroughly comprehend the duties and responsibilities of Management. In other words, we must know the answer to the question, — "What is Management's job?" It is a tough question to answer. Since it is usually easier to consider a specific set of conditions rather than a general set, and since I happen to be a member of the Management group, I ask you to bear with me for just a few moments while I talk about what my job entails — perhaps that may help to clarify Management's job.

Possibly I do not differ very greatly from any of the rest of us, when I say that the first requirement of my job appears to be to please the boss. After all, if we don't do that first, we very seldom have an opportunity to show what else we can do.

And my boss is, to put it in pleasant words, very peculiar. Perhaps the phrase "Extremely Inconsistent" is an adequate description. My boss is in some ways quite generous and in others very selfish. Perhaps he only appears to be selfish, but the fact remains that his prime interest appears to be his own well-being. Looking at the generous aspect first, he pays my salary, and the salary of all my associates, and never takes the trouble to actually determine in detail whether or not the work I am doing is such as to merit the salary he pays. On the other hand, at the first sign of failure, he promptly looks elsewhere to secure a better service.

There is a great deal of talk about social security, and of seniority rights. My boss is entirely uninterested in the subject, and seems to feel that since he never asks me to worry about his security or seniority rights, he therefore has no call to be even slightly interested in mine.

His main interest is in our product and our service. He consistently observes the results of our productive efforts. He is not satisfied to spot-check only, but insists upon being guided by the most exhaustive types of usage tests. If he is satisfied with these usage tests, he permits us to continue to serve him, but if he is dissatisfied he promptly looks for someone else who can do a better job.

He appears to have a wallet where his heart ought to be, and his decisions are based solely and entirely on his own opinions of value. A life time of service means nothing to him, if someone comes along with a new idea that seems worth a trial.

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Do you recognize my boss? You should, because he is your boss, too. He is our customer. Management's first job is to please this boss, — to please the customer. All the efforts of management must have this objective, otherwise the time we spend is purely wasted effort. This applies just as much to the industrial accountant as it does to the other members of the Management body.

THE MANAGEMENT FUNCTION

In order to see just a little more clearly how the Management function fits into the scheme of things, let us consider how a Company comes into being. It quite properly starts with the big boss, — The Customer, — who feels that he wants some particular service or commodity. He is convinced that it is essential to his well-being or happiness. Let us consider this big boss as being above us, at that point on the ceiling directly over my head. Now, do we have a Company? Obviously, no.

Then a group of people decide that it would be good business to get together and supply what the big boss wants. They pool their spare money, and provide buildings and machinery with which to produce this commodity or service.

They also scare up additional capital with which to purchase materials, pay wages, and create a further adequate bank balance to keep things running until the big boss decides to pay for the product or service which he accepts. These people we call capitalists. Do we now have a Company? Still obviously no.

We now have a demand for our products or service, also the equipment and the necessary funds to produce it, and the next necessity is human beings to operate this equipment. The necessary number of men and women are induced to come into these buildings and operate this equipment because they are given adequate assurance that they are going to secure a suitable wage for their efforts. Do we now have a Company?

Yes, we now have a company—but where is Management?

We have created a symmetrical geometric figure, three major factors forming a triangle. This triangle connects the customer, capital and labour. We have hopes that it will become a triangle of plenty, that by joining the three factors it will create the set of conditions whereby value can result for the benefit of all three groups.

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But, these three groups all appear to want entirely different things.

1. The big boss, the customer, wants the best possible product or service at the lowest possible cost.
2. Labour wants the highest possible wage for the lowest possible expenditure of time and effort.
3. Capital wants the highest possible return on the lowest possible investment.

Obviously if these three forces simply pull willy-nilly in their own respective directions, they are going to continue to get farther and farther apart. Eventually, and before very long, they would get so far apart that the sides of our triangle would break, and we would cease to have anything at all.

This is where Management comes into the picture!

For the purpose of completing this analysis, let us consider that I am Management. Above me is the big boss. At my right is Capital and at my left is Labour. Labour has a tough rope around my left leg, pulling urgently for higher wages. Capital has just as tough a rope around my right leg and is pulling just as hard for better corporate earnings. And the big boss, — the customer, has a rope around my neck; if he is not satisfied with either quality, service, or price, you know perfectly well what he will do with that rope. He can, and will, without the slightest compunction, kill the business.

Management's job now becomes painfully clear. It's job is to be the buffer between these three forces, to keep them in balance and to prevent them from getting so far apart that our triangle of plenty ceases to exist: — or in other words to keep them closely enough together to be sure that our Company will be successful.

RECONCILING THE THREE FORCES

Now Management cannot do this job by main force. Can you visualize any Management group continuing to occupy its office, if either the customer or Labour, or Capital, simply refuses to deal with it? There is only one way in which Management can do this job and that is by:

- (a) Understanding clearly the motives of each point of our triangle.
- (b) By adequately and successfully interpreting to each point, the aims of the other two.

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Once we start to clarify our understanding of the motives of each point of our triangle, an amazing factor comes to light. Considering the three points as three separate and distinct groups, their objectives are quite easily understood. We have mentioned them before.

But, when we start to consider how we are going to successfully interpret each group to the others, we have to consider the individuals who are in these various groups. This is where the amazing factor becomes evident. *The vast majority of people are members of at least two of these groups, and usually all three!*

The working man will walk away from his work at 5 o'clock thoroughly convinced that he should be paid more money, and at five minutes after five he will purchase something for his own personal use and feel just as certain that he is paying more money for it than he should. He pulls just as strenuously on the rope around our necks, as a few moments before, he was pulling on the left hand rope!

And the majority of us have money in a savings account in a Bank, or have Life Insurance. Remember that not all capital in industry is invested; much of it is borrowed from just such financial institutions. When we grumble about the low rate of interest we get on our bank deposits, or about the low dividend returns on our Insurance Policies, we are the capitalist who demands a better return on the money he has invested.

Therefore, it would seem to be quite simple to explain these groups to each other, because they are to a major extent made up of the same individuals. But such explanation is not quite so simple.

From this standpoint, and insofar as our thinking, has progressed, it would seem to be very advantageous to eliminate the struggle between these three factors. Let us consider that idea for a moment.

Suppose that consumers did not want lower prices for equivalent quality. In other words, we would be eliminating the competitive factor from business. We all know that it is keen competition between companies that spurs them all to their best efforts to improve the value which they give when they sell their product or service. And, if there was no such improvement in value, our standard of living would stand still,

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— or more probably go backward because nothing ever stands still.

And suppose that Labour did not want higher wages. At the moment in referring to higher wages I am referring to a higher purchasing power for each week of work done. If the labouring force did not want this higher purchasing power, then we would not have the increasing consumer demand which in turn stimulates industry, and again contributes to the advancement in our standard of living.

And suppose Capital did not want a higher return on the money it invests. If it did not want such higher return, the return would doubtless soon become even smaller than it is now. When this happened, where would the additional capital come from for further industrial expansion, which leads to the improved mechanization of industry, lower costs, better quality products, and in turn a higher standard of living?

No, we do not want to eliminate the struggle between these three factors, because it is the constant pulling on each of these three corners of our triangle that creates the incentive for continuous improvement in the efficiency of our overall economy.

Therefore, in its broadest aspect, Management's job is to preserve this struggle between the three points of our triangle: *but*, — to do so by substituting the proper and true objective for the present short-sighted objectives of lower prices, higher wages, and higher dividends. These three objectives in themselves are perfectly right and proper, *provided* they are always tempered by a full understanding of the fact that the guiding principle behind them must be to improve our lot in life, — to improve our material welfare.

By accomplishing this clarification in our thinking, Management will change the present uninformed struggle between classes, into an intelligent and co-operative striving toward a better life for all of us

THE ROLE OF THE INDUSTRIAL ACCOUNTANT

Having taken this brief look at the broad aspect of Management's job, and the benefit which you and I could gain if Management does this job effectively, let us try to bring into detailed focus that part of the picture which includes the industrial accountant. While, like everyone else, he has contacts

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with all three points of our triangle, his major concern is with Capital and Labour.

1. In his function of financial reporting, he informs Capital of the results of Labour's endeavours.
2. In his cost control function, he assists in trying to influence Labour to conform to the desires and plans of Capital.

Therefore the industrial accountant is right in the middle of the conflict between Capital and Labour. He knows that, — Capital wants materials to be used carefully. Labour gives lip service to this in theory, but in practice a high percentage of the industrial working force is apathetic and uninterested.

Capital wants high productivity. Many Labour leaders agree in principle, but in practice fight for changes that have the direct opposite effect. In the majority of Plants, deliberate slow-downs, feather-bedding, are constantly in effect, — with the full approval and support of Labour leaders.

Capital advocates more mechanization in industry. Labour's attitude ranges from grudging acceptance to direct opposition, in the belief that mechanization creates unemployment.

Capital, in the main, strives to give the consumer the highest possible value, — but is occasionally guilty of limiting quality to create more business. In theory, Labour agrees with the need for quality workmanship, but in practice all too many workmen leave it up to Management to control quality, feeling that anything is justified from a practical standpoint if they can "Get Away with it".

There is really no need to belabor the point that a conflict does exist between Capital and Labour. It is more important to determine why it exists, and a widespread misunderstanding of the true meaning of few common everyday words is a large contributing factor.

Consider the word "Money". Frequently people are heard to say that it is not money that counts, but what can be bought with it. But in practice, we all continue to strive urgently to secure more money, acting in the same way that we would act if we were thoroughly convinced that money itself had value.

But, — *Money is only a tool*. It is the means by which we achieve our objective, — it is not, in itself, the objective. By

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making the mistake of looking on money as the objective, and by striving to secure more money by any possible means, we change the effect of this essential tool! By varying the exchange value of money, we put business in the same position as a lathe hand would be if expected to do a good job with a cutter which constantly and without warning, changes the breadth and depth of its cut.

We can only have what we produce, and securing more money will not, in itself, give us anything more unless at the same time we produce more. And, if we produce more, we will certainly have more, — regardless of the rate of money wages.

The economic facts of life are not taught in either our Primary or Secondary schools, nor, as far as that is concerned, in the so-called business schools that prepare young people for office work. One will secure certain opinions on these economic facts, if he elects to take an economics course in University, or enrolls in the proper correspondence schools or night courses; but we must remember that what we learn through these sources may have little practical value. Is it sensible to expect our industrial working force to know these economic facts under these conditions?

A few moment's consideration will show us the effect of this lack of economic knowledge.

Take a moment to look at the word "Profit". You and I know quite well that profit is actually an item of cost. We know that out of profit the Company has to pay investors something in return for the use of the tools of production which their investment has provided. We know that out of profit must come a major part of the costs of providing expanded production facilities otherwise our much-vaunted industrial progress would soon become industrial stagnation. We know that out of today's profit, we must set aside a reserve fund out of which to meet the excess costs of non-profit periods; and we all know that such non-profit periods can, and do, happen!

To-day Labour is constantly being told that business is making exorbitant profits, that higher productivity is completely unnecessary and often harmful; that business could well afford to pay much higher wages; and that they are fools if they put up with this slave-driving selfishness because all they have to do is to insist hard enough and long enough and business will have to capitulate. Isn't it about that that Management accepted

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the responsibility of answering these charges, and gave Labour the opportunity of forming its conclusions having both sides of the story in mind, instead of just one?

There is only one way to answer these charges, and that is by the presentation of facts as they exist, — by a program of economic education in industry. The productive worker is fully capable of understanding the conditions that need clarification. His I.Q. rating is good. He does not lack intelligence, but he does lack knowledge. The industrial accountant is ideally suited, both by his training and his responsibilities in the organization, to assist in the preparation and presentation of this knowledge to the productive worker.

Perhaps you may feel that this idea of turning a business into a class room is a needless frill, — a substitution of high-minded theory for good practical effective work. Perhaps you may say that we don't need endless discussions, — what we do need is more production and higher quality at lower cost.

Those objectives are right, but what actions are needed to accomplish them? Would you agree with this list of requirements?

1. A consistently high level of working effort.
2. Pride of workmanship.
3. Eliminating unnecessary waste in the use of materials.
4. The same intelligent care in the use of industrial machines, that every man takes in using his own personal possessions.
5. An intelligent interest in always looking for a better way to do the job.

Now, who is it that has to actually put these principles into practical use, insofar as productive output and costs are concerned? Is it the President? Is it the Factory Manager? Is it the Accountant? Is it the Factory Foreman? Is it the productive worker?

You all know the answer. Then, whose mind is it that we have to reach in order to accomplish our objective of more production of higher quality at lower cost? It is the productive worker who must be influenced, and it is Management's job to do this influencing.

Here is a comment aimed particularly at the industrial accountant, by Samuel L. H. Burk, Director of Industrial Relations with the Pittsburg Plate Glass Company in an address

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given to the 31st Annual International Cost Conference of the National Association of Cost Accountants in New York City.

"The industrial accountant will play an important part in both employee relations and public relations as business slowly awakens to the need for selling itself. The accountant can assist in both the awakening and the selling process. But he must expand his part from that of technical advisor. He must drop much of his technical jargon and perhaps even professional terminology. He must develop ways of aiding management in putting across the facts of business life in commonly used terminology."

There is no point in taking more time to quote leading men in business. The thinking exists, — the need for action is recognized, — but actual action is as yet pitifully meagre. You and I are the people from whom that action is required! — *And it is later than we think.*

I would like to point out particularly one factor in Mr. Burk's comments. He mentions two things that are required.

1. The *awakening* of business to the need for selling itself.
2. The resulting *selling* process.

Mr. Burk specifically states that the accountant can assist in *both* the awakening and the selling process. It is obviously his opinion that, if we find in our own Company an inadequate realization of the need for business to sell itself, then the industrial accountant has the responsibility of awakening his Management to the urgency of this need. Certainly this is a job which the industrial accountant can do. He sees daily the excess costs and the decreased production that results from an improper worker attitude. Also, he has the ear of top Management and therefore has an ideal opportunity to bring strongly to the forefront the benefits that can result from an enlightened worker attitude.

At this late point, for the first time our subject is receiving specific mention, — Planning, Profits and People. In planning for profit, we must work through people. These people, if not convinced of the justice and intelligence of our plans, can sabotage them. This sabotage may be either the result of deliberate obstructionism, or simply lack of interest caused by lack of understanding. The basic need, and it *must therefore be part of our basic planning*, is to create an intelligent interest

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in the economic facts of life. We must lead all members of industry to see beyond the routine jobs that they are doing, and to understand the vast improvement in their own material welfare which can result if they consistently turn out quality products, give a good full day's work for a full day's pay, and welcome with open arms all technological improvements as they come along. We cannot expect them to do this simply because we tell them to. We can expect that they will do exactly this, when they understand that *it is for their own selfish well-being that they should do so.*

The problem of incorporating economic education into your own internal Company training program, is much simpler than you would imagine. There are several well established organizations specializing in providing a service to industry to assist in this work, — and their problem is to create an active interest on the part of Management. While the subject is broad, the basic fundamentals are relatively simple. Each Company can, in its own way, using its own staff guided by these well-established organizations, develop its own program which can be extremely effective.

The future holds out promise for even greater improvement in our material welfare, than has been shown during the last century, — and our progress during this past century has been amazing. Incidentally, can anyone name the leader who has shown us the path which we had to travel during the last 100 years, in order to achieve the results which we did? Of course we can name such men as Marconi, Edison, Einstein, and so on. I don't mean these men whose basic researches have lead to the new inventions which industry is using, but I mean the name of the man who has shown industry the business methods required to secure the greatest value from these inventions and developments. Can you name him?

I doubt that you know him, and to be frank I don't either. I have never heard of any such leader. I am quite convinced that there never was one. So, when we are considering just how we should proceed from this point forward, let us not waste our time looking for any such leader to show us our future path, because very likely no such leader will ever show up. Instead of wasting our time in any such fruitless search, let me appeal to you, to each one of you, to use all of your efforts and all of your ability — in your own particular sphere of influence — to be that leader yourself.

Cost of Management

By JOHN C. LAPP

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Who is management? This author holds that management is at the department head level but the question is, does the department head manage. This article suggests techniques by which the department head, as a manager, will more than recover his cost and enable him to show a profit.

"Cost of Management", — an unusual subject isn't it? Well it has interested me, too! What is the cost of management? We worry about rising costs of wages, supplies, raw materials out of which we manufacture our products, the cost of our government, and in these trying times the cost of our preparedness program. Yes, we worry about all of these costs and make plans to control and hold them in line, but we read or hear very little about programs for directing our efforts toward cost reduction through management.

When we mention the word management we are inclined to think of those in top level positions, the officers. I believe management is at the middle level, those usually called Department Heads or Supervisors.

The officer is the policy maker; the department head or supervisor does the managing in carrying out the policies.

A Senior Vice-President of one of our large corporations has said: "True management is at the supervisory level; when you get old enough to be a senior officer, you are too old to actively manage, you are just sitting around waiting to retire."

What do the words "cost of management" mean?

Cost is the value placed on goods or services, or for the purpose of our discussion, is the price. Management, the dictionary tells us, is treating, directing, carrying on, or accomplishment.

Therefore, we are talking about the price of accomplishment. Accomplishment, or the lack of accomplishment is the difference between recognition and the lack of recognition. Recognition that management is at the middle level and the

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price of accomplishment depends how well we have prepared our managers to manage.

I was greatly impressed by a letter distributed to the executive staff of one of our large insurance companies. The letter opened by saying, "Experience in this and other companies has proven that the proper application of certain basic principles and procedures in office management will bring increased efficiency and lower operating costs." The number one item in their letter was — Are supervisors, *managers, if you please*, free to devote sufficient time to management duties? The second item in their letter was this question — What plans have been formulated for training clerks for future supervisory positions?

In these two questions lies the answer to the Cost of Management or the Price of Accomplishment. Has the manager been trained to manage and does he have time to manage?

A short time ago I heard the manager of a department in a large company say: "I am so busy doing productive work myself that most of the time I do not have the slightest idea what the people who work for me are doing." This man is spending over \$20,000 a year for his company in wages alone.

Mr. Robert W. Jackson, President of Aldens, Inc., of Chicago, said: "A clear-thinking management who knows and understands their employees and their problems, will always have a happy, efficient and productive organization that will do everything possible to see the Company makes a profit."

Certainly the manager I told you about cannot know or understand his employees or know of their productivity.

Mr. Jackson, of Aldens, went on to say: "The more satisfied employees in your company, the greater your net profit."

I call your attention to the similarity of the letter of the insurance company that said: "training for management and time to manage," and the statement of the President of Aldens, Inc., which said: "management that knows and understands employees will have a productive organization."

I believe that there are three basic parts to a training course for management.

First — the art of learning to delegate work so that the manager will have time to manage. I believe this is one of the hardest things to teach to the future or new manager.

How many of us hesitate to delegate work we have always done and have always thought important, to someone else in

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our organization? How many of us have said: "It is easier to do it myself than teach someone else."

How many of us have the fear that if someone else does it, it may be wrong? We are afraid to share the responsibilities.

The second part of our training program should be — *the art of dealing with people* — Remember, management must know and understand the problems of its employees.

Many so-called managers become so important they do not have time to listen to the problems of their employees.

The art of dealing with employees is, I believe, first — to be a good listener; second — be honest in praise and honest in criticism.

Many managers forget their days as a clerk — how important it was to talk to the boss, give him their suggestions, tell him their troubles and ask for advice on their problems. A good listener seems to solve most problems without saying anything.

Honest praise and honest criticism. Sincere honest praise means a great deal to the worker. It gives them a pride of accomplishment in their work. Honest and constructive criticism is not pointing out every error.

If properly handled, it will leave the employee with the idea that the manager is interested in the betterment, advancement and the ability of the employee.

Third item in our training program for management is the art of gathering information, then the study, interpretation, and analysis of information. Dr. Fred J. Knight writes in the magazine, the "Controller": "The successful manager studies and interprets the information that falls into his hands. He then formulates sound plans and policies and passes these along to superior officers in a clear and convincing form ready for action."

I believe one of the best ways to teach the art of gathering information is to give the prospective or new manager a project. A project that can and will have two beneficial results:—

1. The project will require the gathering of quantities of data. It will require discussion of the data. It will require analysis. It will require the forming of opinions and last, the formulation of plans.
2. The finished project will have a definite value to the company.

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The project that I would assign is making a study of the cost of doing a piece of work, such as the cost of paying an invoice or the preparation of a payroll check.

My outline for this man to work with would require that he do the following:—

1. Talk to each individual in, let's say, the Accounts Payable Department. Write down every single thing each employee does and how long the employee estimates it takes to do each thing. How many times it is done in each day, week or month.
2. Have him analyze his notes and find how many of the things can be grouped into one unit.
3. Have him add up the times for each piece of work that was grouped into a unit.
4. Have him find out how many units of work enter the department each month.
5. Take the number of units and the total salaries for the department, and determine the cost per unit.
6. Have the Manager compare the cost of the work of one employee against another.
7. Have the Manager give his suggestions for bringing the costs which may be the differences in productivity into line.

In this type of project for training the manager in the art of gathering and using information, you have required gathering of data, analysis of data and you have instilled thinking in how to improve the cost of doing a piece of office work. You have made the manager conscious of the cost of operating his department. Certainly if he is a good manager he will want to compare these costs from time to time.

When you have management checking and comparing the costs of their responsibilities, you have gone a long way toward assuring the officers of your company that management will not be a cost, but that management will show a profit.

I believe the Cost of Management will be low when a manager has time to manage, knows how to deal with his employees and knows the costs of operating his department.

Cost Control

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Cost control is usually thought of in terms of controlling the labour, material and overhead elements of cost. Basic to this, the author suggests, are certain conditions which must be present to achieve effective control. They relate to organization, communications, human relations and the open mind.

Management's basic responsibilities in representing invested capital are in the areas of:—

1. A QUALITY PRODUCT
2. LOW (COMPETITIVE) COST
3. TIMELY DELIVERY

It is said that if profits are considered incidental to these — they will be automatic.

We are concerned in this paper with COST — its reduction and CONTROL.

Discussion will not be limited to such narrow interpretations as Cost Finding, Cost Accounting, the vague term "Costing" — or even Cost Control, as it implies the control and regulation of Material, Labour and Overhead elements of cost so that actuals will be equal to, or less than estimates or satisfactory performance.

Let us examine that concept of COST CONTROL which is concerned with overall PRODUCTIVITY . . . and which starts with management's effectiveness.

Productivity is a root problem to-day. Technological contributions aside, it is doubtful that workmanship quantity and quality has yet returned to even 1940 standards. Private studies — and contempt for the dollar — offer little proof that it has. (e.g. — unit-labour cost rises above man-hour output; trashy housing design and construction, major fires due to faulty heating installation; collapsed bridges, major railway disasters — all evidence of indifferent workmanship and supervision).

*An address to the Cost and Management Institute, Montreal, February 8th, 1951.

COST CONTROL

At a time when every basic condition promoting inflation is already present — including consumer buying "experiences in selfishness" — and astronomical defence budget is brought down. Some of our leaders think and act in terms of "controls" (of what exists) — when the basic remedy is more production; others talk up taxation, restricted credit — wholly negative approaches. If we were real business men, we would buy not peace, but production.

It is up to us whether we pay for defence out of PRODUCTIVITY — or out of living standard. The best control is self control — of consumption and production cost. This is management's dutiful contribution.

FOUR CONDITIONS NECESSARY

It is submitted that four basic conditions must be present in any enterprise before real COST CONTROL is possible:—

1. SOUND ORGANIZATION
2. EFFECTIVE COMMUNICATION
3. POSITIVE HUMAN RELATIONS
4. THE OPEN MIND

ON ORGANIZATION

A first and most important requirement for any concerted effort towards cost reduction and control is a sound organization structure — ably manned.

Organization is the *backbone* of a business — its lines the *arteries* of management. Its structure and discipline determine a company's strength. It must be non-static.

Some essential features of sound organization include:

- (a) Clear definition of duties — and relationships.
- (b) The right man in charge.
- (c) Delegation of responsibility — and authority.
- (d) No person subject to orders from more than one superior.
- (e) No orders given over head of a superior.
- (f) No one expected to act as assistant and critic at the same time.
- (g) Each supervisor to act as a manager — encouraged to accept responsibility.
- (h) Inter-cooperation, etc.

We have all met the "one-man" organization — clever enough to handle all decision and much detail, but short-sighted enough to fail to build sense of responsibility and open-

COST AND MANAGEMENT

mindedness; he *limits* productivity. We know, too, the ineffective superintendent who dams up the energies of his subordinates yet is "protected" because of seigniority or relationship.

Of the basic types of organization —

1. **FUNCTIONAL** — promotes rivalry; internal control. Few applications.
2. **LINE** — staff functions buried, duplicated. More applications.
3. **LINE AND STAFF** — most effective and popular.

Which basic type or particular structure is best? One must first determine objectives. Are they greater production? enlarged facilities? emphasis on a particular product? decentralized operation? campaign against cost?

(There is a current trend towards "split organization" — making one executive responsible for the final result on one or a class of product).

Next, outline an organization structure to achieve your objective. Write up functional descriptions — select personnel preferably from company, and prepare. Administer the plan and follow-up; encourage responsibility to lower levels.

Without the above, **CONTROL** techniques cannot and do not work. Failures of most plans are traceable to weaknesses in organization — which cannot be static. Review structure and personnel periodically.

W. J. Reilly's Law of Intelligent Action states that the satisfactory solving of an environmental problem depends on—

1. *Desire* to solve it.
2. *Ability* to solve it.
3. Capacity to handle its *Human Relations* aspects.

We find various combinations of these factors in key men. To-day's tension raises questions on desire; full employment makes scarce ability. Look to training for some relief.

ON COMMUNICATION

Management's communication with the general public is mostly wired through Public Relations and Advertising Offices. It is often flamboyant.

The devices include House Organs, Radio, Display Advertising, Open House, fancy Annual Reports, etc. (Too many of us rely on these as communication media towards employees).

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It is unfortunate that some heavyweight firms cater to a 14-year-old public mentality instead of trying to raise it. For instance, one of a firm's departments will be pouring doubtful promotion out to housewives, via radio, while during the same morning, another department will be trying to prime her husband — possibly an employee — with business and economic "truths". (e.g. — "More people buy Hooey than any other stuff . . ." "Hooey contains Lunium and XYZ factors . . ." etc.)

If a cross-section of the public (and workers) believe that business makes 25% profit instead of 5%, it is because they lack trust. If we lie on the billboards, on the networks — and in internal matters as "guaranteed standards" — we lie, period.

The above communication is *one-way*. It may sell goods in prosperity — but it hasn't sold economic sense at the bargaining table. More important to-day than selling soap and tires, is the awakening of working people's faith . . . *demonstrating* our sincerity.

Our communication with employees is probably even less effective.

"Fortune" estimates that business will spend over \$100,000,000 in 1951 on Free Enterprise and the "righteousness" of business (not worth a damn).

The proof? The sixth round — the strikes — the featherbedding — the demands (and awards) for more for less. At least, the worker doesn't *act* as though he believes what creates living standard.

You don't sell Canada or Free Enterprise to Canadians by propaganda. They've seen it — they've had it — lived with it. They want to be shown through everyday policies and practices. Economic education is good — and needed — but must emphasize the result more than the reason.

Productivity must enlist *two-way* communication between department heads and supervisors, supervisors and employees.

The technique of Multiple Management is suggested. There are many forms. Bring supervisory groups at different levels together for regular and informative discussion. This results in appreciation and acceptance of company's policies and problems, objectives and progress. Dissatisfaction and discontent is reduced through opportunity to *talk back*.

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(Outstanding example of Multiple Management is Lincoln Electric Co.

Result: Highest productivity and highest wages on record. Note, also the relative absence of this result in certain employee-owned plants, where the Multiple Management *spirit* is missing.)

More pep-talks and numerous, hectic business "meetings" are not the answer. Ask yourself — Is your communication **TWO-WAY?**

ON HUMAN RELATIONS

Some executives look on Human Relations as a management "tool" — to be exploited only periodically and spasmodically — under pressure.

The extent of its consideration seems to vary with economic cycles . . . we periodically lose track of the management objective or **BASIC CONDITION** involved — promoting **WILL** to work. This spirit should be spontaneous.

The concept of Work Dynamics (e.g. — forces and principles which promote productivity) entertains that there must be, in addition to "HOW" factors, a set of "WILL" factors . . . towards the end Lincoln bluntly terms "Intelligent Selfishness".

Human Relations is the most abstract, mystifying problem or aspect of management at any time — because of "humanics" — people and personalities, and how they get along. Korzybski, the profound thinker and analyst, and father of the newly-popular discipline, "General Semantics", observed that man's organization of physical things has far out-paced his ability to deal, and even to live with himself (L. of N. U. N.)

It is said that technical heroes are made not born. It is likely that most heroes in relations work are born — not made. You had better check your critical relations centers for social aptitudes. One weak link in the relations chain can do more harm than ten cost and planning engineers can do good.

How to improve **WILL TO WORK?** Approaches vary from cold propaganda to the hiring of a company pastor to "do good". One large organization supports an executive who spends a relaxing day in a lavish, deep-carpeted office. There are no papers on his desk . . . he apparently has little to do. His own explanation is . . . "We can hire all the engineers and accountants we need — *they* do the work. I act as a sort of catalyst to

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make them work smoothly together. Friction costs money . . . I eliminate the friction."

The actual technique is least important . . . again it is the spirit that counts. We can usually improve **WILL** or **MORALE** — however you define it — by action on our knowledge of basic human wants. Money is *not* number one. In approximately this order, people want from their jobs —

1. Economic security.
2. Earnings proportionate to skill, effort — and *commensurate* with colleagues'.
3. Increasing earnings.
4. Steadily improving working conditions.
5. Sense of belonging, participation; self-respect, dignity, acknowledgment.
6. Leadership.

There may be many techniques or "tools" in Human Relations work to help bring satisfaction in the above:—

Policies on the Annual Wage — Job Evaluation and Merit Rating — Incentives and Profit-Sharing — Fringe Benefits — Counselling — Recreation — Engineering of better working conditions — Multiple Management, etc.

Some firms have all — yet poor relations; others have few of them — and less trouble. Look for weaknesses in

- (a) administration
- (b) its spirit

ON THE OPEN MIND

This takes us back to Riley's DESIRE to solve a problem. It is remarkable that everyone thinks " . . . now I'm being open-minded about this thing."

But Charles F. Kettering, long experienced in introducing the "new", has found otherwise. Quote . . . "You can send a message around the world in 1/7 of a second . . . yet it takes years to force a simple idea through 1/4 inch of human skull." It seems to take a generation for public acceptance of a major change.

(Examples: The Dvorak typewriter keyboard; pulpwood cutting by motor saw and skidding by wire; functional office furniture; basic economic facts; the countless proposals we have all had stymied; the "our work is different" attitude).

Resistance symptoms may take the form of a hostility pattern — with downright refusal, sloppy effort — with its un-

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decisive output, or weak-kneed fawning submission. The latter is the most dangerous.

For best results in opening the mind, we must understand **WHY** people resist change. The University of Michigan Research Centre on Group Dynamics, found that in cases of administrative change, resistance may be encountered when —

- (a) Nature of the change is not made clear.
- (b) Different people see different meaning in proposed change.
- (c) Those influenced by change are caught between forces pushing to make change and those pushing to deter.
- (d) Change is proposed on personal grounds.
- (e) Change ignores established institutions.

Resistance proves to be least when an understanding of the **NEED** for the change is developed, and when **PARTICIPATION** in planning the change is invited. It seems that findings of the deepest psychological, psychiatric or engineering studies can be expressed in layman's common sense.

Factors accounting for resistance to changes in work methods or procedures include:—

- (a) Implication of criticism of those using old methods.
- (b) Fear of loss of prestige or credit.
- (c) Fear of ability to re-learn processes.
- (d) Economic fears.

We live in an era of change. Close analysis reveals that nothing is static — except, apparently, certain types and classes of people. There is more change in Private Enterprise than in Government, more in the West than in the East, etc.

All around us we observe combustion, evaporation, deterioration, growth; vacant fields becoming crowded communities, plants extending, roads becoming highways, a nation's boundaries and influences expanding or contracting . . . promotions, transfers, invention and improvement.

Life and industry thrives on change. Personnel Departments . . . Materials Handling Specialists; Directors of Industrial Relations . . . Offset Printing. In the rear, the business failures — firms and individuals who couldn't adapt themselves to change.

Encourage employees to think in terms of better methods. Use "positive" Suggestion Plans, training in Work Simplification. Avoid complacency in matters of machine obsolescence. By latest standards, 75% of our machine tools are obsolete.

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SOME AIDS OR TECHNIQUES

Key figures in a competently-staffed organization will, if effectively charged with cost-responsibility, search for, and bring in the management tools and techniques most applicable under their functions.

Suggestion: When examining other experiences or results with any particular technique, observe closely the INDIVIDUALS responsible for their administration. Results are invariably proportionate to their technical and/or social prowess.

A basic management tool like Time & Motion Study may be taking a beating under the hand of incompetence or inexperience. No other single tool with comparable acceptance is so *under-applied*. None can so justify its existence when the fullest concept is entertained.

Other techniques worth stressing here, include:—

Planned Schedules: Overloaded capacities, fluctuating volumes and schedules result in varying manpower requirements, unbalanced inventories, attendant problems of storage, handling, customer dissatisfaction. Well-planned schedules, consistently realized from month to month are essential for effective cost control.

Planned Processes and Methods: This emphasizes the CREATIVE aspects of industrial engineering as Plant Location and Layout — Materials Handling — Processing — Work Simplification — Time & Motion Study — etc.

More new techniques and approaches are being added annually than can be absorbed by the typical department. Review and modernize.

Suggestion Systems: Few plans draw as high as 25% usable ideas. The reason — an unimaginative "service" with long drawn-out follow-up, slow action; elements of rivalry. Place constructive-type principles before workers to draw on through Work Simplification training, etc., and examine the real value of the award incentive.

Wage Incentives: Once more growing in popularity with direct workers, with demands for participation coming from indirect and supervisory people. Plans based on engineered standards are preferable to "ratio-type" applications. Supervisory incentives should be geared to cost picture, turnover, absenteeism, quality, etc.

Quality Control: Without which the principle of "interchangeability" disappears. Review Inspection department or-

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ganization and technique, or consider as a staff function. Statistical methods are advantageous under certain conditions of cycle length, job run, etc.

FLEXIBLE BUDGETS

This is neither new nor novel as an aid in controlling labour, material and overhead. A limited acceptance in this country stems from lack of understanding (a) What it is, (b) How it is arrived at, (c) What it can do.

Flexible Budgets may be defined as the relationship which exists between costs and volume and how this relationship should change with changing volume.

The best method of arriving at this relationship is through engineered standards, together with an intelligent interpretation of prior experience.

Properly established, a Flexible Budget is an extremely useful means of controlling both direct and indirect expenses by cost centres, and provides assessment of performance at any level of production. It must be kept current and all changes in plant facilities, methods, etc., must be reflected as revisions.

ACTION REPORTS

These serve as notification for corrective action. They must be frequent and punctual, and do provide a certain amount of "police" action by themselves.

They can be designed to report on machine utilization, labour turnover, attendance, delay advice, labour performance vs. standard, direct and indirect, etc.

SUMMARY

To do a job of COST CONTROL, there is no one preferred formula or one set of preferred tools. It is usually a problem of tailoring.

This fact is sound — and in the best interests of competitive enterprise.

The four basic conditions above contribute to Taylor's concept of scientific management, here summarized:

1. Development of a true science.
2. Scientific selection of the worker.
3. His scientific development and education.
4. Intimate friendly co-operation between management and men.

Since Taylor's day, these fundamentals have not changed; ... but their scope and technique change *hourly*.

